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APPLICATION OF UNITED CITIES GAS COMPANY, A DIVISION OF ATMOS ENERGY INC., NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC. AND CHATTANOOGA GAS COMPANY FOR APPROVAL OF DEFERRED ACCOUNTING)
) SECRETARY
) DOCKET NO. 01-00802

This Second Amended and Restated Joint Application for Approval of Deferred Accounting supercedes the previous applications filed under Docket No. 01-00802 on September 14, 2001 and September 17, 2001. After consultation with the staff (the "Staff") of the Tennessee Regulatory Authority ("TRA") or ("Authority") and the Consumer Advocate and Protection Division of the Office of the Attorney General (the "CAD"), the Applicants, as defined below, have elected to modify the application to accommodate the recommendations of the Staff and the CAD. The Applicants also incorporate by reference their respective responses to the data requests submitted by the Staff on September 28, 2001.

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1. It is requested that any notices or other communications with respect to this application be sent to the following individuals on behalf of the respective Applicants:

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Each of the Applicants is properly authorized and engaged in the business of furnishing natural gas to customers located in various communities in Tennessee. As public utilities operating natural gas distribution businesses in the State, the Applicants are subject to the regulation and supervision of the Authority pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

2. Due to the dramatic increase in the wholesale cost of gas during the 2000-2001 winter heating season, coupled with the colder-than-normal weather conditions during the months of November and December of 2000, customers of each of the Applicants experienced gas bills significantly higher than those for the same period for the previous winter. In fact, the wholesale gas costs were significantly higher than experienced in the previous ten winter heating seasons. The prospect of excessive disconnects was of great concern to the TRA as expressed at the TRA's conference on February 6, 2001. In responding to the TRA's concerns the companies

made every effort to extend payment plans and offer budget billing. In so doing, the companies adopted a policy of not conducting "business as usual" including not disconnecting customers in accordance with tariff provisions. The Applicants took measures throughout the previous winter heating season and thereafter to mitigate the effects of the high wholesale prices by providing customers with deferred payment plans that allowed payments to be spread over a number of months rather than paid in full at the time of billing. Under the various plans offered by the Applicants, service was not terminated to the individual customers as long as payment terms agreed to by the customers were being honored. In addition, each of the Applicants has a budget-billing program that is designed to allow customers to spread their bill payments over a one-year period. These programs were especially helpful to customers on fixed incomes and to other customers who had difficulty paying their gas bills.

3. Despite the efforts of the Applicants to work with their customers in dealing with the significantly higher wholesale gas costs, each of the companies experienced an unprecedented increase in the level of its bad-debt expenses in Tennessee associated with uncollectible accounts. Consequently, the total net write-offs attributable to uncollectible account expenses incurred by the Applicants are \$1,572,202 for UCG, \$1,505,000 for Nashville Gas and \$1,397,938 for Chattanooga Gas through the end of their respective fiscal years. The Applicants view the magnitude of the write-off of these bad debts as extraordinary.

4. Each of the Applicants' respective tariffs allows a certain amount to be recovered in the cost of service for uncollectible account expenses. Specifically as of the last rate case for each Applicant, UCG is permitted to recover \$130,117, Nashville Gas is permitted to recover \$410,837, and Chattanooga Gas is permitted to recover \$138,006 in the cost of service for uncollectible account expenses. The gas cost portion of the uncollectible account expenses

currently allowed in the respective tariffs is \$99,927 for UCG, \$279,262 for Nashville Gas and \$105,350 for Chattanooga Gas. Clearly, the magnitude of the uncollectible accounts experienced by the Applicants during the 2000-2001 winter heating season and thereafter is far in excess of the amounts currently allowed for uncollectible account expenses in the respective tariffs.

5. "The Purchased Gas Adjustment ('PGA') Rules are intended to permit the company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the company does not over-collect or under-collect gas costs from its customers."¹ Therefore, Applicants' request for relief is consistent with the intent of the PGA Rule. Unless the Authority grants appropriate relief, the Applicants will be required to absorb substantial costs that will not be recovered in the currently allowed rates. These excessive expenses are obviously outside the norm and were not caused by the actions and/or inactions of the Applicants. The Applicants contend that it would be unfair to require them to absorb these costs when the excessive expenses arose in large part due to the Applicants' attempts to mitigate the impact on their customers by working out payment plans which were not honored by the customers. Furthermore, each of the Applicants can demonstrate that significant efforts were made to collect the delinquent accounts during the current year, and each of the Applicants will continue to diligently attempt to collect all delinquent accounts, which have been debited to the Unrecovered Purchased Gas Costs-Federal Energy Regulatory Commission Account No. 191 ("FERC Account No. 191"), and to credit the gas portion of the accounts previously written off to FERC Account No. 191 for the benefit of the ratepayers, the approval of which is sought in this Application.

¹ TRA Rule 1220-4-7-.02(1)

6. For the reasons set forth above, the Applicants respectfully request the Authority to permit them to defer pursuant to TRA Rule 1220-4-1-12 and their respective tariffs under the PGA rider provisions the difference between the gas cost portion of the actual net write-offs for each LDCs' current fiscal period and the gas cost portion of uncollectible account expenses currently allowed in their base rates.

The amount of gas cost which each Applicant is seeking to defer pursuant to TRA Rule 1220-4-1-12 is calculated as follows:

	<u>UCG</u>	<u>Nashville Gas</u>	<u>Chattanooga Gas</u>
Total Net Write-off	\$1,572,202	\$1,505,000	\$1,397,938
Gas Cost Portion	1,207,422	1,023,007	1,067,145
Less Gas Cost in Base Rates	(<u>99,927</u>)	(<u>279,262</u>)	(<u>105,350</u>)
Amount Deferred	<u>\$1,107,495</u>	<u>\$ 743,745</u>	<u>\$ 961,795</u>

The gas cost recovery component on all amounts received from customers on previously written off accounts will be credited to the deferred gas accounts for the benefit of the ratepayers through December 31, 2002. The gas cost recovery component on collections will be calculated using the same percentage as that used in determining the amount of the uncollectible deferral. The deferred gas accounts will be finally reconciled as of December 31, 2002 to reflect the net recovery after credits for payments received on the written-off amounts. The respective reconciliations will be included in each Applicant's first Actual Cost Adjustment ("ACA") audit filing after December 31, 2002.

The fiscal years for UCG and Chattanooga Gas end on September 30, 2001 and the fiscal year for Nashville Gas ends on October 31, 2001. Unless the TRA approves this application, the Applicants' reported earnings, their ability to raise capital and their ability to maintain the current level of service may be adversely affected.

7. The Applicants have responded to data requests by the Staff and described in detail their plans to work with the customers who have been disconnected due to failure to pay

for service. The Applicants will continue to work with their customers who were disconnected due to delinquent accounts to encourage them to make payments on delinquent accounts and to facilitate the reconnection of their services.

WHEREFORE, Applicants respectfully pray that the Authority issue an order approving the relief requested above.

Respectfully submitted this 19th day of October, 2001.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been mailed, postage prepaid, to the following parties of interest this 19th day of October, 2001.

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